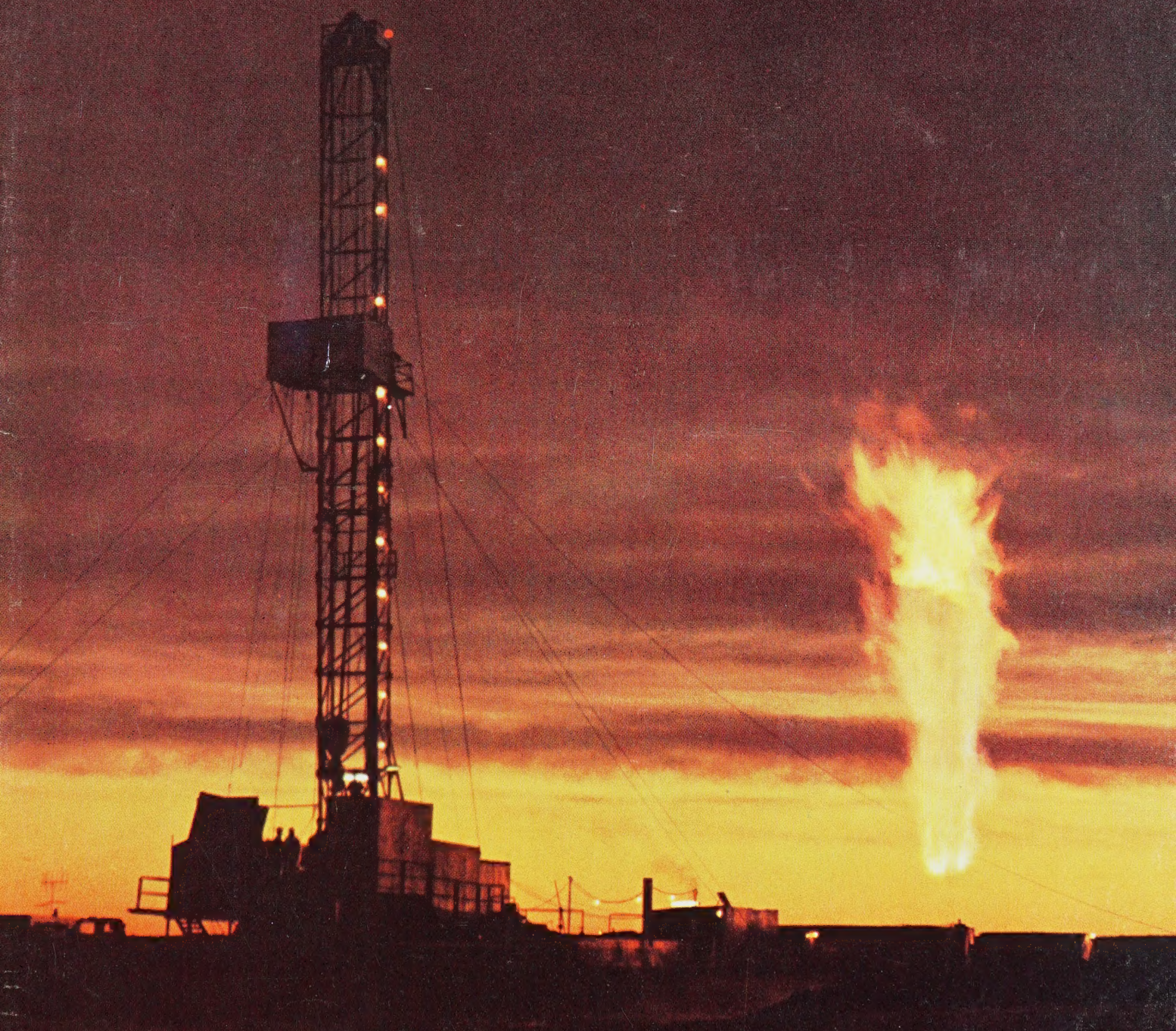


AR29

# HOUSTON OILS LIMITED

## REPORT TO SHAREHOLDERS







# HOUSTON OILS LIMITED

## REPORT TO SHAREHOLDERS

### DIRECTORS

C. FRANKLIN AGAR, Executive, *Calgary, Alberta*  
ROGER L. BALL, Accountant, *Calgary, Alberta*  
WILLIAM A. CLARKE, Investment Dealer, *Oakville, Ontario*  
JOHN A. DOWNING, Vice President of the Company, *Calgary, Alberta*  
LOUIS MARX, SR., Corporation President, *Scarsdale, New York*  
JAMES A. MILLARD, Barrister & Solicitor, *Calgary, Alberta*  
ALBERT E. WHITEHEAD, President of the Company, *Calgary, Alberta*

### OFFICERS

ALBERT E. WHITEHEAD, President, *Calgary, Alberta*  
JOHN A. DOWNING, Vice President, *Calgary, Alberta*  
DARRELL R. LONG, Vice President, Exploration, *Calgary, Alberta*  
THOMAS M. M. BENDER, Treasurer, *Calgary, Alberta*  
JAMES A. MILLARD, Secretary, *Calgary, Alberta*

### HEAD OFFICE

950 Three Calgary Place,  
335 - 4th Avenue S.W.,  
Calgary 1, Alberta

### TRANSFER AGENT AND REGISTRAR

The Canada Trust Company,  
Vancouver, Calgary, Toronto, Montreal

### AUDITORS

Collins, Love, Eddis, Valiquette & Barrow,  
Calgary, Alberta

### LEGAL COUNSEL

MacKimmie Matthews, Calgary, Alberta

### BANKER

The Toronto-Dominion Bank, Calgary, Alberta

Cover: Gas flare on development well in Matziwin-  
Verger field, Alberta.

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## INTRODUCTION

The amalgamation of Houston Oils Limited with Ensign Oils Limited, which was approved by shareholders of both companies on January 25, 1971 and completed by issuance of the formal Certificate of Amalgamation on February 4, 1971, has been the climax of an eventful year for Houston Oils Limited.

As a result of the amalgamation, the operations of Houston Oils Limited and Ensign Oils Limited are now carried on by the amalgamated company and its affiliated and subsidiary companies which are referred to in the opening balance sheet forming part of this Report and these are collectively referred to as the "Company". Reference should be made to the maps forming part of this Report to locate specific areas to which references are made.

The two companies, prior to the amalgamation, were both very active in exploration and development drilling (see Exploration and Development section) and it is the present management's policy to continue an active exploratory and development program in the future.

## OIL AND GAS RESERVES

The Company's oil and gas reserves on September 30, 1970 as determined by consulting engineers were as follows:

### OIL RESERVES:

|                |                          |
|----------------|--------------------------|
| Proved .....   | 2,074,893 barrels        |
| Probable ..... | 3,645,449 barrels        |
| Total: .....   | <u>5,720,342 barrels</u> |

### GAS RESERVES:

|                |                                |
|----------------|--------------------------------|
| Proved .....   | 49.3 billion cubic feet        |
| Probable ..... | 12.5 billion cubic feet        |
| Total: .....   | <u>61.8 billion cubic feet</u> |

## LAND

On February 4, 1971 the Company had an interest in 25,903,663 gross acres which are summarized as follows:

### Working Interest Lands:

|                                   |            |
|-----------------------------------|------------|
| Petroleum and Natural Gas .....   | 16,359,021 |
| Mining .....                      | 372,185    |
| Net Carried Interest Lands: ..... | 931,209    |
| Overriding Royalty Lands:.....    | 8,241,248  |

## PRODUCTION

The Company is presently producing approximately 500 barrels of oil and an equivalent of 8,000,000 cubic feet of gas per day. Approximately 6,529,000 cubic feet per day of the gas production is not actually being produced, but is being paid for by Northern Natural Gas Company under the "take or pay" provision of a gas contract with the Company covering gas reserves in the Tiger Ridge Gas Field of Montana. Before the end of 1971 we expect to have several shut-in gas wells located in the Lait and Matziwin-Verger fields in Alberta on production.

## FINANCIAL

Current gross income after royalties from oil, gas and mineral production, on an annual basis, is estimated to be \$565,500. After deducting direct operating costs the net production proceeds are estimated to be \$380,000. During 1971 an additional \$340,615 from prepayments of future gas deliveries will increase the Company's cash flow substantially.

## EXPLORATION AND DEVELOPMENT (Oil & Gas)

The Company was very active in Western Canada and the United States during the period ending September 30, 1970, drilling or participating in 85 exploratory and development tests. The record for this program was 9 oil wells, 18 gas wells and 58 abandoned as dry holes.



Since September 30, 1970 the Company has participated in 26 exploratory and development tests. Of these, 1 was completed as an oil well, 10 were completed as gas wells and 15 were abandoned as dry holes.

The Calling Lake project in northeastern Alberta added substantially to the Company's proven and probable gas reserves (which are not included in the Reserve section above), with 7 of the 9 wells drilled resulting in gas discoveries. The Company now has varying interests in 239,480 acres in this prospect. Since this is a muskeg area, further development and exploratory drilling will now be delayed until the winter drilling season of 1971-'72.

Two development gas wells were completed in the Matziwin-Verger field and one development gas well was completed in the Lait (Aden) field in Alberta and one development oil well was completed in the Browning field, Saskatchewan. We anticipate doing additional development drilling in all three of these fields during 1971.

Considerable development drilling may be necessary this year in the Tiger Ridge gas field of Montana (interests held by the Company's wholly-owned subsidiary, Ensign Oils, Inc.) due to the possibility that Northern Natural Gas Company may commence taking gas from this field in 1972.

The Company presently has plans to drill or participate in approximately 25 other exploratory tests on acreage in which it now owns an interest in Canada and the United States. Several multi-well projects will be undertaken this summer by the Company.

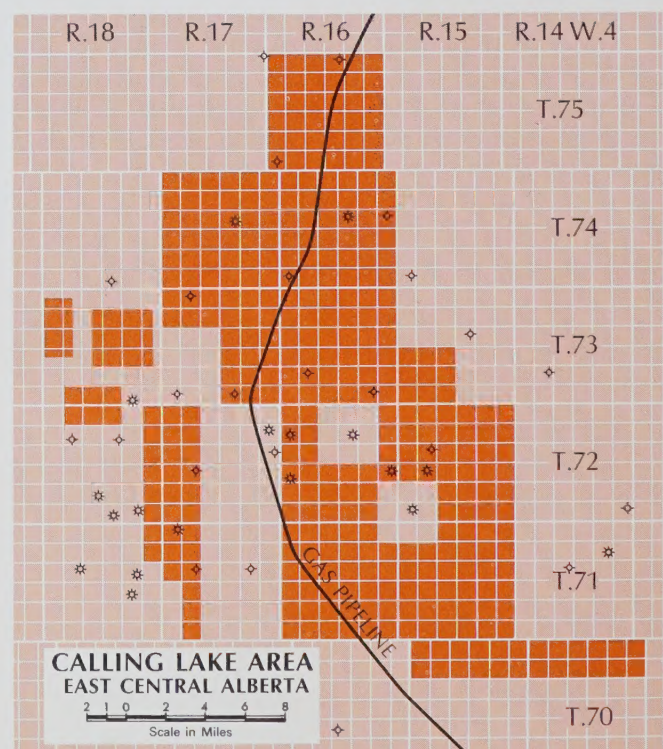
The Company will drill an eight well program west of the Tiger Ridge field in Hill and Chouteau Counties, Montana. This is a shallow gas prospect on which the Company has a 50% leasehold interest in approximately 93,000 net acres which will be reduced to approximately 12.5% interest by bringing in other participants.

A four well program will be drilled by the Company on a shallow oil and gas prospect in the Fort Benton area of Chouteau County, Montana. The Company presently has an 87.5% interest in 50,404 net leasehold acres which will be reduced to approximately 25%.

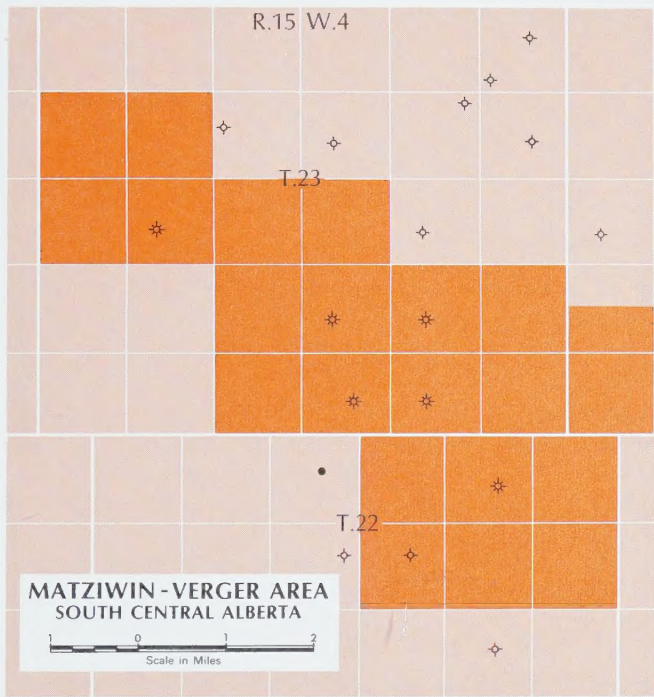
The Company has a 50% interest in 148,351 net leasehold acres in Bottineau and McHenry Counties, North Dakota on which it plans to drill four test wells. This is an oil prospect and the Company will retain a 25% interest.

Other prospects scheduled to be drilled in 1971 include a Mississippian oil prospect in the Osborne area of Saskatchewan, two shallow gas prospects in the Whitford Lake area of Alberta, two Mississippian oil prospects in northern Montana, a 10,500 foot Red River oil test in North Dakota and a shallow gas prospect in northern Montana.

- COMPANY INTEREST ACREAGE
- Location or Drilling Well
- ✱ Gas Well
- Oil Well
- ✧ Abandoned Well

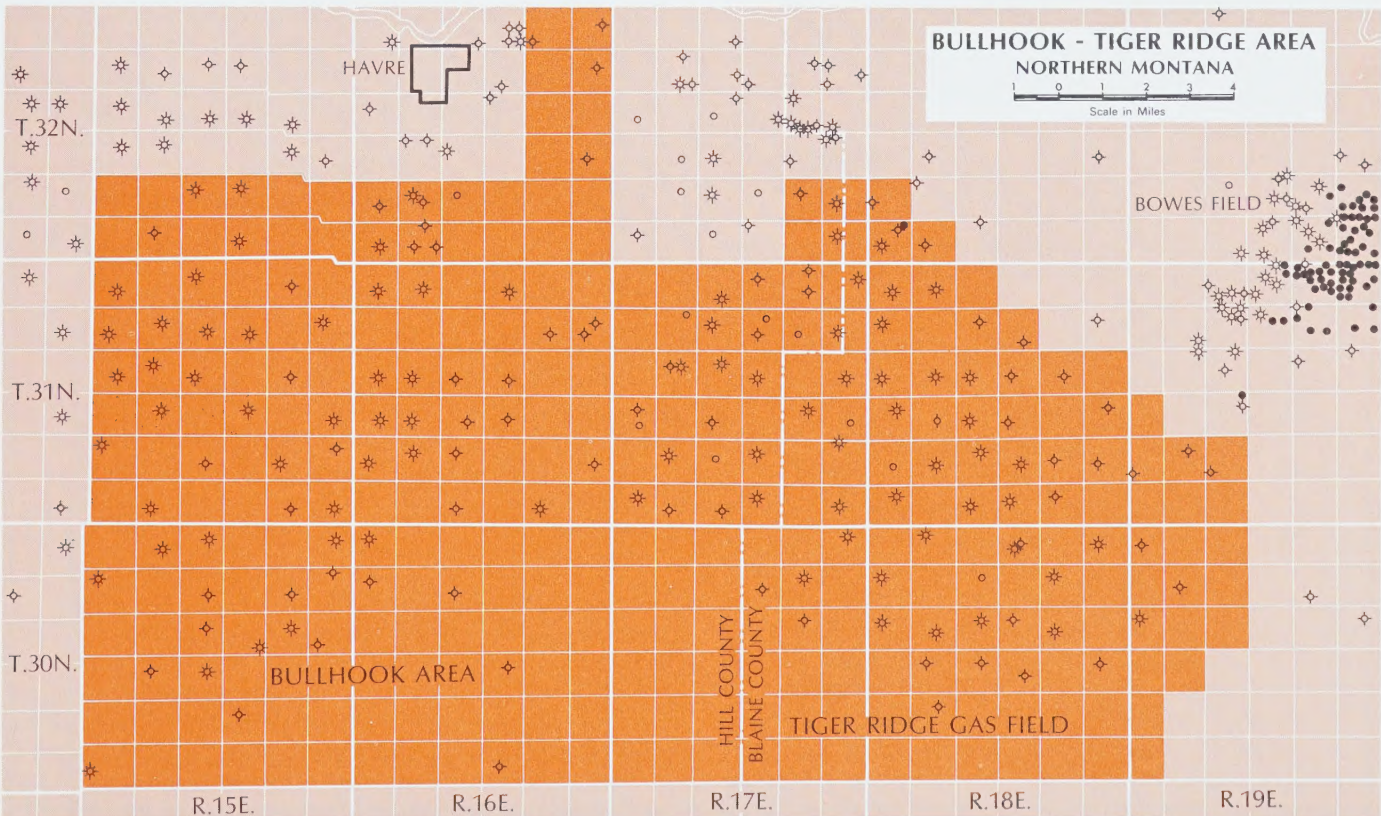






## EXPLORATION AND DEVELOPMENT (Minerals)

The Company holds a 15% working interest in the Sun Cup No. 2 Uranium-Vanadium mine located in San Miguel County, Colorado and ore is presently being sold from this mine to a mill at Grand Junction, Colorado. A new ore body has been delineated by drilling southwest of the





Sun Cup mine and a shaft is presently being sunk with mining operations scheduled to be commenced in September, 1971. This new mine, in which the Company has a 15% interest, will be known as the Dolores River Mine. Additional exploratory drilling will be done in the general area of these mines during the summer of 1971. The Company owns a 15% working interest in 745 mining claims in the prospect area.

The Company has a 33.4% interest in 402 mineral claims in the vicinity of Rankin Inlet, Northwest Territories, on which intensive airborne, ground geophysical and geological exploration was carried out in 1970, with several anomalous areas being mapped. This is a nickel-copper prospect and we are presently offering other companies an opportunity to earn an interest in return for a commitment to conduct a large drilling program.

The Company has an interest in other mining claim blocks in the Morell and Carswell Lake areas of Saskatchewan, the Baker Lake area of the Northwest Territories and offshore Alaska. We plan to carry out ground surveys on the Morell Lake interests during the summer of 1971, in order to evaluate data obtained from an airborne geophysical survey. This zinc-lead-silver prospect is approximately 36 miles south of the Gulf Mineral's Uranium discovery in Wollaston Lake area.

## FOREIGN OPERATIONS

### TURKEY

The Company's affiliate, Tür-Kan Petrol Ltd., in which it holds a 30.5% interest, completed a farmout agreement in September, 1970, under which a test well was drilled on one of its Turkish properties, at no cost to Tür-Kan Petrol Ltd. The test resulted in a dry hole. Tür-Kan Petrol Ltd. holds an interest in exploration licences on 494,200 acres in District V and applications on an additional 1,000,000 acres in District VI and is presently attempting to negotiate joint geophysical operations on prospects covered by these licences and applications which could be carried out in 1971.

### INDONESIA

The Company has acquired a 10% interest in an Indonesian concession located in the southeastern Strait of Malacca between the Malayan Peninsula and the island of Sumatra. This concession comprises approximately 10,000,000 acres. The Company will participate in a seismic program scheduled to start by August 5, 1971.

### ITALY

The Company has a 10% interest in two exploration permits (totalling 107,287 gross acres), one onshore and one offshore, in the Vasto area of the Adriatic. Seismic work has been carried out on these permits and the operator of this project is presently attempting to farm out an interest to third parties for a well commitment.

The Company also holds a 50% interest in two exploration permits containing 26,000 gross acres in the central Adriatic offshore area. A farmout has been made with another company whereby they have agreed to conduct a seismic program. After the seismic program has been completed they will have the option to drill a test well to earn a 75% interest which would reduce the Company's interest to 12.5%.

### NETHERLANDS

The Company has a 4.5885% interest in Block Q-11 comprising 40,000 gross acres located in the Dutch North Sea. No immediate exploration plans exist on this block.

### ABU DHABI

The Company has a 5% working interest in a 778,000 acre concession located in the Abu Dhabi portion of the Arabian Gulf. You will note on the map of this area that this concession is located only a few miles from several oil fields with reserves of two to three billion barrels. An exploration program consisting of 800 miles of marine seismic was completed in late 1970 and plans have been completed to commence drilling a test well in May 1971, which shall be drilled free of cost to the Company.

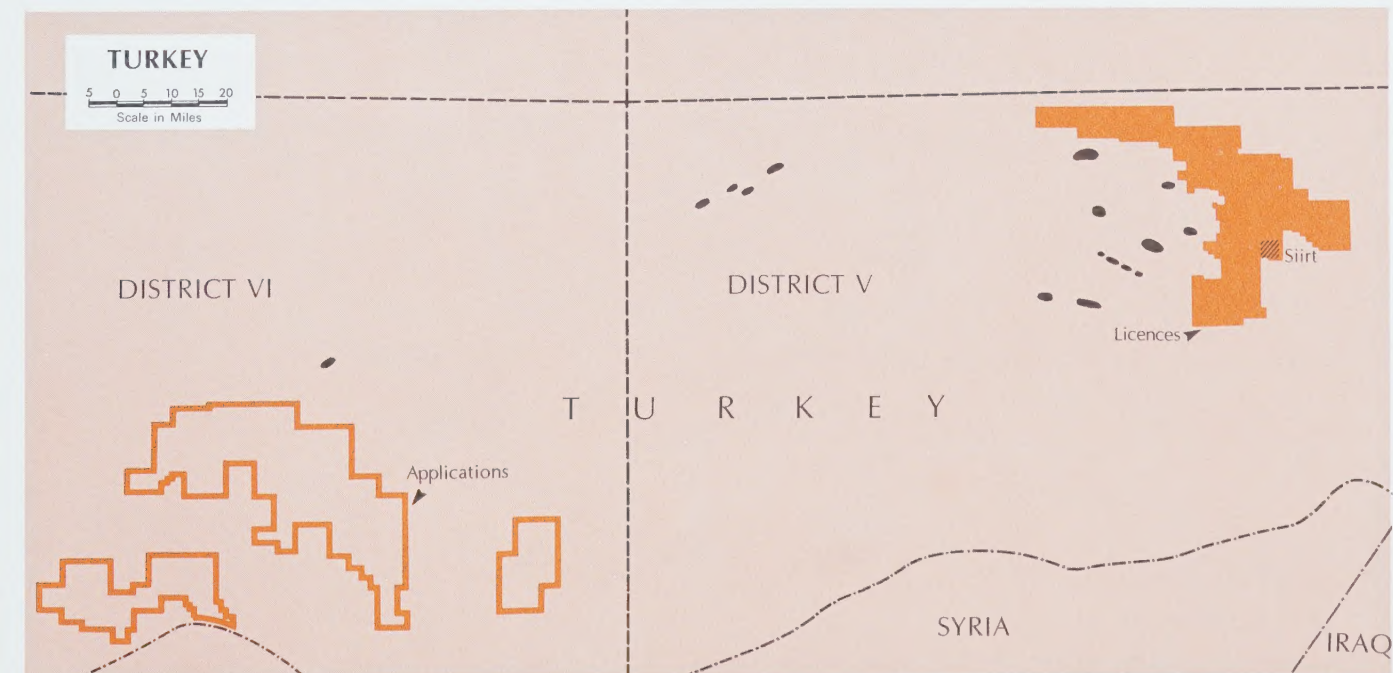
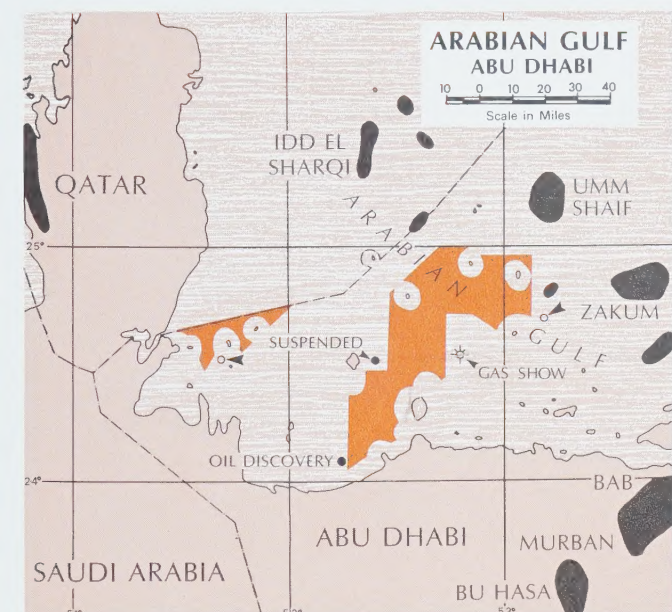
COMPANY INTEREST ACREAGE

Location or Drilling Well

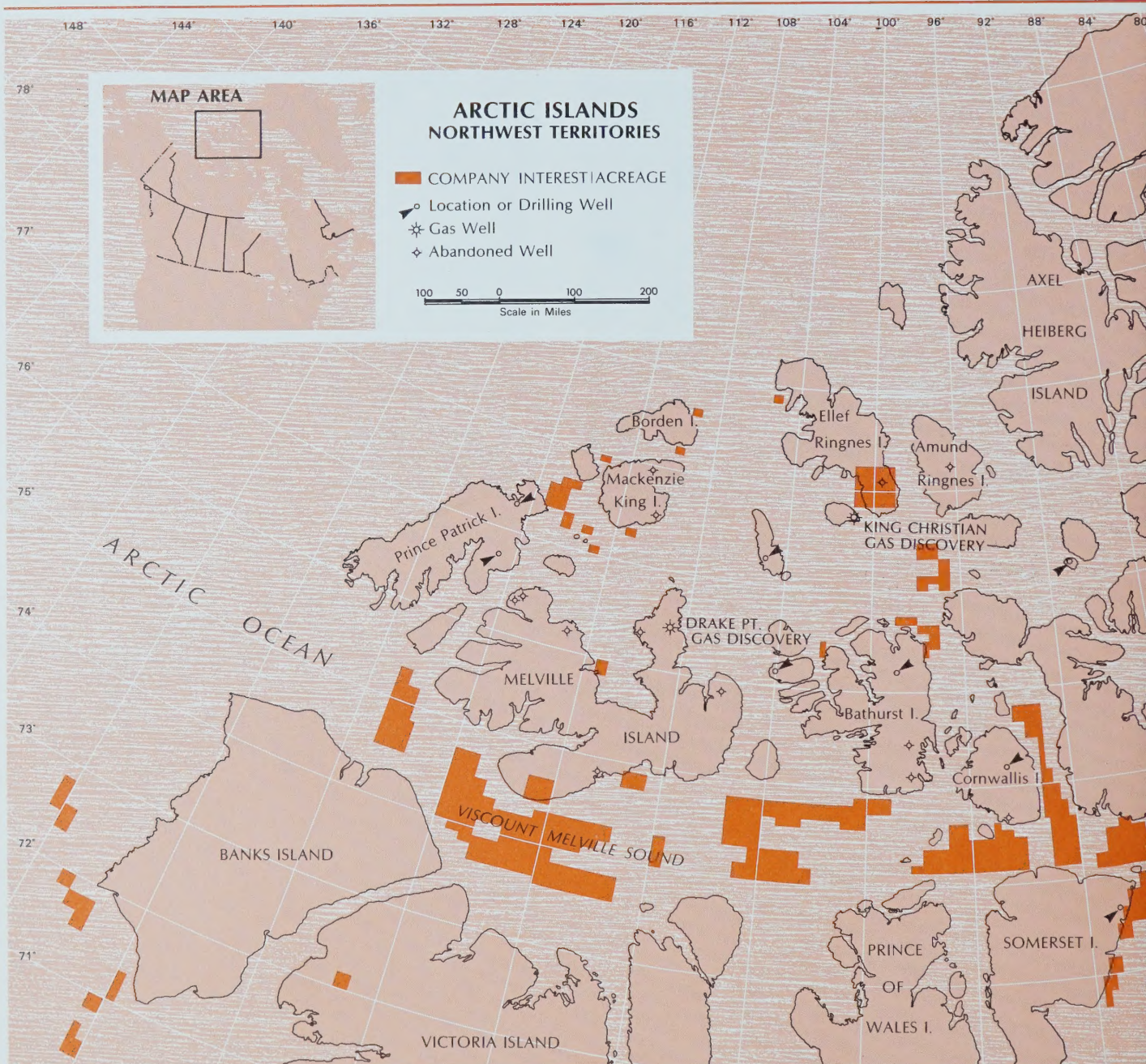
Oil Well

Gas Well

Oil Field











## MISCELLANEOUS EXPLORATION

The Company has contributed its Arctic Islands working interest permit acreage along with several other permit holders to a new company known as Magnorth Petroleum Ltd. in exchange for a 10.7% share interest. The formation of Magnorth Petroleum Ltd., which now holds permits covering approximately 13.5 million acres in the Arctic Islands, will allow the necessary exploration work in this remote area to be carried out by one company, eliminating duplication of effort and providing a more economical source of information to its shareholders. A seismic survey has been planned for this summer to supplement the 2,300 miles of seismic work carried out this past summer.

The Company also plans to participate in reconnaissance geophysical programs this coming summer on acreage in which it holds an interest located offshore Eastern Canada.

## FORECAST

It is the management's opinion, since we are operating from a sound base of oil and gas reserves and involved in an active exploratory and development program in Canada, the United States and internationally, that the Company has an excellent opportunity for continued growth during 1971.

## ACKNOWLEDGMENT

The Board of Directors takes this opportunity to welcome its new shareholders and to thank both new and old shareholders for your continued support and trust.

Respectfully Submitted on Behalf of the  
Board of Directors

A. E. WHITEHEAD,  
President.





HOUSTON OILS LIMITED  
and Subsidiary Companies

CONSOLIDATED BALANCE SHEET

February 4, 1971

ASSETS

Current

|                                                                                                 |           |            |
|-------------------------------------------------------------------------------------------------|-----------|------------|
| Deposit certificate .....                                                                       | \$ 10,000 |            |
| Accounts receivable .....                                                                       | 393,797   |            |
| Marketable securities, at cost<br>(Market value \$112,343) .....                                | 125,691   |            |
| Prepaid expenses .....                                                                          | 14,146    |            |
|                                                                                                 |           | \$ 543,634 |
| Note receivable — shareholder (Note 4) .....                                                    |           | 25,000     |
| Drilling and exploration deposits .....                                                         |           | 105,520    |
| Investments and advances — affiliated company,<br>at cost (Note 5) .....                        |           | 100,925    |
| Investments — other, at cost (no quoted market value) .....                                     |           | 49,470     |
| Property and equipment, at cost — less accumulated<br>depreciation and depletion (Note 6) ..... |           | 4,259,079  |
| Other assets, at cost .....                                                                     |           | 23,909     |

On behalf of the Board

A. E. WHITEHEAD, Director

J. A. MILLARD, Director

\$5,107,537

*The accompanying notes are an integral part of this balance sheet.*

AUDITORS'

The Shareholders,  
Houston Oils Limited.

We have examined the consolidated balance sheet of Houston Oils Limited and its subsidiary companies as at February 4, 1971. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.



## LIABILITIES

### Current

|                                            |                |            |
|--------------------------------------------|----------------|------------|
| Bank indebtedness, secured.....            | \$ 59,857      |            |
| Accounts payable and accrued charges ..... | 301,107        |            |
| Current portion of long term debt .....    | <u>146,306</u> |            |
|                                            |                | \$ 507,270 |
| Prepayment of future gas deliveries .....  |                | 270,152    |
| Long term debt (Note 7) .....              |                | 662,519    |

## SHAREHOLDERS' EQUITY

### Capital stock (Note 8)

|                                          |                    |                    |
|------------------------------------------|--------------------|--------------------|
| Authorized                               |                    |                    |
| 20,000,000 Common shares of no par value |                    |                    |
| Issued                                   |                    |                    |
| 4,123,000 Shares .....                   | 4,679,791          |                    |
| Deficit (Note 10).....                   | <u>(1,012,195)</u> |                    |
|                                          |                    | 3,667,596          |
|                                          |                    | <u>\$5,107,537</u> |

## REPORT

In our opinion this consolidated balance sheet presents fairly the financial position of the company as at February 4, 1971, in accordance with generally accepted accounting principles.

COLLINS LOVE EDDIS VALIQUETTE & BARROW  
Chartered Accountants

May 6, 1971  
Calgary, Alberta



# HOUSTON OILS LIMITED AND SUBSIDIARY COMPANIES

## NOTES TO BALANCE SHEET

February 4, 1971

### NOTE 1: AMALGAMATION

The balance sheet of Houston Oils Limited (the amalgamated company) gives effect to the amalgamation, on a pooling of interests basis, on February 4, 1971 of Ensign Oils Limited and Houston Oils Limited (the predecessor companies).

Under the terms of the Agreement of Amalgamation, each of the 1,995,000 shares of Houston Oils Limited (the predecessor company) was converted into one share of the amalgamated company; and each of the 1,596,000 shares of Ensign Oils Limited was converted into one and one-third shares of the amalgamated company. (See Note 7). The share purchase warrants and share options of the predecessor companies have been converted into undertakings of the amalgamated company on the basis outlined in Note 7.

### NOTE 2: ACCOUNTING PRACTICES

The companies follow the practice of capitalizing all lease acquisition costs and exploration costs. If the lease is subsequently surrendered the accumulated costs are charged to income at the time of surrender. The costs of drilling unproductive wells are charged to income when the prospect area is abandoned. Lease acquisition costs and exploration costs of each producing area are amortized on the unit of production method based on estimated recoverable reserves of oil and gas. Depreciation of production and other equipment is provided on a straight line basis at rates designed to amortize the costs over the estimated useful lives of the assets.

### NOTE 3: PRINCIPLES OF CONSOLIDATION

The consolidated balance sheet includes the accounts of the Company and its wholly-owned subsidiaries Bluenose Oils Ltd. (an Alberta company), Bridger Petroleum Corporation (a United States corporation) and Ensign Oils, Inc. (a United States corporation).

The accounts of the foreign subsidiaries have been converted to Canadian dollars on the following basis:

Current assets and current liabilities at the rate of exchange in effect at February 4, 1971.

Other assets and liabilities at the rate of exchange in effect at the date of the transaction.

### NOTE 4: NOTE RECEIVABLE, SHAREHOLDER

D. R. Long, an officer and employee is indebted to the Company for \$25,000 which was used to purchase fully-paid shares of Houston Oils Limited (the predecessor company) in 1969. The loan is evidenced by a promissory note payable on or before August 1, 1974 and is secured by the certificates representing the 10,000 shares purchased, which certificates are deposited with The Canada Trust Company, as Trustee.

### NOTE 5: INVESTMENT IN AND ADVANCES TO AFFILIATED COMPANY

The company has advanced \$97,670 by way of loan to an affiliated company, Tür-Kan Petrol Ltd. These funds, together with an equal amount received from another affiliated company, have been used by Tür-Kan Petrol Ltd. to acquire and evaluate certain oil and gas exploration licences in Turkey, which evaluations were still in progress as at February 4, 1971.

The Company holds 30.5% of the outstanding capital stock of Tür-Kan Petrol Ltd. at a cost of \$3,255.

### NOTE 6: PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

|                                         | Cost               | Accumulated<br>Depreciation<br>and Depletion | Net<br>Book<br>Value |
|-----------------------------------------|--------------------|----------------------------------------------|----------------------|
| Oil and gas properties                  |                    |                                              |                      |
| Fully or partially<br>developed .....   | \$1,727,058        | \$243,650                                    | \$1,483,408          |
| Undeveloped.....                        | 2,134,865          | —                                            | 2,134,865            |
|                                         | 3,861,923          | 243,650                                      | 3,618,273            |
| Mineral properties                      |                    |                                              |                      |
| Fully or partially<br>developed .....   | 69,777             | 8,604                                        | 61,173               |
| Undeveloped.....                        | 217,792            | —                                            | 217,792              |
| Production and other<br>equipment ..... | 517,483            | 155,642                                      | 361,841              |
|                                         | <u>\$4,666,975</u> | <u>\$407,896</u>                             | <u>\$4,259,079</u>   |

### NOTE 7: LONG TERM DEBT

Long term debt payable after one year consists of the following:

|                                      |                  |
|--------------------------------------|------------------|
| 7½% bank loan .....                  | \$ 67,800        |
| 9% bank loan .....                   | 234,459          |
| 9¼% bank loan .....                  | 47,300           |
| Interest free development loan ..... | 312,960          |
|                                      | <u>\$662,519</u> |

Although the bank loans are evidenced by demand notes the banks have indicated that they will accept repayments in monthly installments totalling \$146,306 per annum until the loans are repaid in full.



The development loan due July 1, 1974 is repayable in quarterly installments out of the proceeds of sale of gas from certain properties. The Company does not anticipate that any repayments will be required prior to February, 1972.

The various loans are secured by a pledge of future proceeds of production from specific properties.

#### NOTE 8: CAPITAL STOCK

The authorized capital of the Company consists of 20,000,000 shares without nominal or par value not to be issued for an aggregate consideration in excess of \$20,000,000.

The issued capital stock consists of 4,123,000 shares without nominal or par value with a stated value of \$4,679,791 which were issued on conversion of the shares of the predecessor companies as follows:

|                            | Number of<br>Shares | Stated<br>Value |
|----------------------------|---------------------|-----------------|
| Ensign Oils Limited .....  | 2,128,000           | \$1,974,850     |
| Houston Oils Limited ..... | 1,995,000           | 2,704,941       |
|                            | 4,123,000           | \$4,679,791     |

(See Note 1)

The 300,000 share purchase warrants issued by Houston Oils Limited (the predecessor company) have been converted into 300,000 share purchase warrants of the amalgamated company. Each warrant entitles the holder to purchase one share of Houston Oils Limited (the amalgamated company) at a price of \$3.50 at any time up to December 15, 1972, after which date they will be void. Three hundred thousand (300,000) shares of the capital stock of the Company are reserved for the exercise of these warrants.

The following shares of Houston Oils Limited (the amalgamated company) have been reserved for issuance on conversion of options granted by the predecessor companies:

- (a) Sixty-six thousand, six hundred sixty-seven (66,667) shares for issuance under the terms of an option granted by Ensign Oils Limited, pursuant to an underwriting agreement dated August 19, 1968. The option is exercisable at \$1.65 per share to August 31, 1973.
- (b) Fifty thousand (50,000) shares for issuance under the terms of the stock option plan for key employees of Houston Oils Limited (the predecessor company).

#### NOTE 9:

Under the provisions of the Canadian and United States Income Tax Acts the companies are entitled to claim intangible exploration and development expenses without regard to the amounts charged in the accounts. As at February 4, 1971 the companies and their predecessors had incurred intangible exploration and development expenditures of approximately \$4,000,000 which had not been claimed for tax purposes and which are available for carry-forward against taxable income for future years, subject, in part, to timing and certain other limitations. Of this amount, \$2,300,000 is available for carry-forward by Canadian companies and the balance of \$1,700,000 is available for carry-forward by the United States subsidiaries.

The companies, in common with many other companies in the oil and gas industry, are of the opinion the "tax allocation" basis of recording income taxes relating to timing differences in claiming intangible exploration and development expenses as advocated by some accounting authorities is not appropriate for oil and gas companies. Had the Company adopted the "tax allocation" basis with respect to intangible exploration and development expenses the accumulated income tax deferrals as at February 4, 1971 would have amounted to \$98,000 which would have appeared as an asset in the consolidated balance sheet of the Company and its subsidiaries.

It is the policy of the companies to provide deferred income taxes with respect to timing differences relating to tangible assets. However, as at February 4, 1971, there were no material differences of this nature and thus no deferred income taxes were required in this respect.

#### NOTE 10: DEFICIT

The opening deficit of the Company consists of the following items carried forward from the predecessor companies:

|                                                                                                                                                | Ensign<br>Oils<br>Limited | Houston<br>Oils<br>Limited | Total        |
|------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|----------------------------|--------------|
| Deficit (retained earnings) September 30, 1970 .....                                                                                           | \$ (143,307)              | \$ 302,913                 | \$ 159,606   |
| Adjustment from the full cost<br>method of accounting to<br>conform with the accounting<br>practices followed by<br>Houston Oils Limited ..... | 645,318                   | —                          | 645,318      |
| Restated deficit, September<br>30, 1970 .....                                                                                                  | 502,011                   | 302,913                    | 804,924      |
| Net loss for the period<br>October 1, 1970 to<br>February 4, 1971 .....                                                                        | 134,737                   | 46,052                     | 180,789      |
|                                                                                                                                                | \$ 636,748                | \$ 348,965                 | 985,713      |
| Amalgamation costs written off .....                                                                                                           |                           |                            | 26,482       |
|                                                                                                                                                |                           |                            | \$ 1,012,195 |

#### NOTE 11: COMMITMENTS AND CONTINGENCIES

The Company has issued non-interest bearing demand promissory notes and letters of guarantee as security for the performance of work obligations by the Company and others in respect of normal exploration activities. The aggregate of such notes and guarantees amounted to approximately \$626,000 at February 4, 1971.

A subsidiary is obligated to pay \$67,000 in connection with certain lease applications in Alaska, if and when, the relevant leases are issued.





## HOUSTON LAND INVENTORY

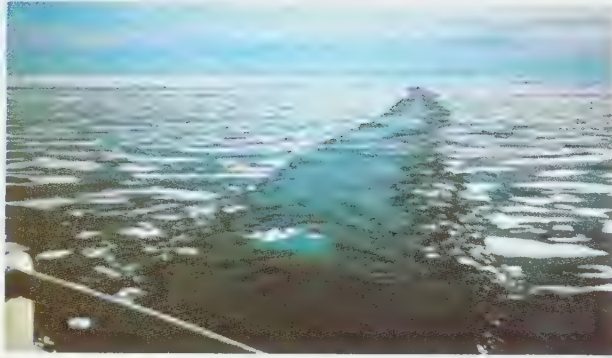
### PETROLEUM AND NATURAL GAS RIGHTS

| (A) Working Interests:                     |            |           | (C) Royalty Interest:                  |           |                  |
|--------------------------------------------|------------|-----------|----------------------------------------|-----------|------------------|
|                                            | Gross      | Net       |                                        | Gross     | Houston Interest |
| 1. Alberta .....                           | 340,907    | 78,620    | 23. (i) Alberta (Mundare) .....        | 1,440     | 10%              |
| 2. British Columbia .....                  | 54,360     | 20,313    | (ii) Alberta (Mundare & Provost) ..... | 4,680     | 8%               |
| 3. Saskatchewan .....                      | 72,840     | 13,779    | (iii) Alberta (Ponoka) .....           | 640       | 2.5%             |
| 4. Manitoba .....                          | 2,040      | 1,451     | (iv) Alberta (Vermillion) .....        | 19,520    | .25%             |
| 5. Yukon .....                             | 614,340    | 153,585   | 24. (i) Saskatchewan (Sucess) .....    | 1,600     | 2.00%            |
| 6. Foxe Basin .....                        | 685,810    | 219,566   | (ii) Saskatchewan (Unity) .....        | 86,720    | 1.00%            |
| 7. Baffin Island .....                     | 1,158,884  | 289,721   | 25. Arctic Islands .....               | 7,079,794 | .25%             |
| 8. East Coast (Offshore) .....             | 1,603,865  | 400,966   | 26. Yukon .....                        | 47,425    | .50%             |
| 9. Alaska (Leases & Lease offerings) ..... | 286,614    | 57,833    | 27. (i) N.W.T. .....                   | 189,153   | .50%             |
| 10. Montana .....                          | 433,787    | 153,721   | (ii) N.W.T. .....                      | 145,003   | .75%             |
| 11. North Dakota .....                     | 149,316    | 74,204    | (iii) N.W.T. .....                     | 88,428    | 1.565%           |
| 12. New Mexico .....                       | 477        | 477       | 28. Beaufort Sea .....                 | 525,949   | .125%            |
| 13. Oklahoma .....                         | 1,120      | 140       | 29. Alaska .....                       | 50,896    | .3125%           |
| 14. Texas .....                            | 3,374      | 421       |                                        | 8,241,248 |                  |
| 15. Italy .....                            | 133,287    | 23,729    |                                        |           |                  |
| 16. Dutch North Sea .....                  | 40,000     | 1,835     |                                        |           |                  |
| 17. Abu Dhabi .....                        | 778,000    | 38,900    |                                        |           |                  |
| 18. Indonesia .....                        | 10,000,000 | 1,000,000 |                                        |           |                  |
| 19. Turkey .....                           | *          | *         |                                        |           |                  |
|                                            | 16,359,021 | 2,529,261 |                                        |           |                  |
| (B) Net Carried Interests:                 |            |           | MINING RIGHTS                          |           |                  |
| 20. Arctic Islands .....                   | 737,400    | 11,061    | (A) Working Interest:                  |           |                  |
| 21. Yukon .....                            | 138,642    | 25,995    |                                        | Gross     | Net              |
| 22. N.W.T. .....                           | 55,167     | 2,067     | 30. Saskatchewan .....                 | 115,370   | 59,270           |
|                                            | 931,209    | 39,123    | 31. North West Territories .....       | 223,023   | 88,061           |
|                                            |            |           | 32. Alaska .....                       | 13,049    | 13,049           |
|                                            |            |           | 33. Colorado & Utah .....              | 20,743    | 6,915            |
|                                            |            |           |                                        | 372,185   | 167,295          |

\* Affiliate Company Tür-Kan Petrol Ltd. holds an interest in Exploratory Licences covering 494,200 acres in Turkey.



## 1970 OPERATIONAL HIGHLIGHTS



Above: Company development well in the Lait gas field in southern Alberta. Top right: Lancaster Sound in the Arctic Islands where the Company participated in a 1970 seismic program. Centre: Gravity survey on Company-interest licences in District V in southeast Turkey. Centre right: Basur #101, exploratory well drilled on Tür-Kan lands in southeast Turkey. Bottom right: Uranium exploration on Company-interest land in San Miguel County, Colorado











# HOUSTON OILS LIMITED

950 THREE CALGARY PLACE

355 - 4TH AVENUE SOUTHWEST, CALGARY, ALBERTA T2P 0J1

AR29

June 7, 1972

Dear Shareholder:

Management of the Company has entered into an agreement with Neperan Resources Company of New York City, subject to your approval and the approval of all government regulatory agencies, to sell 2,500,000 shares from its treasury for the cash consideration of \$5,050,000. The effect of this sale would be to increase the Company's issued and outstanding shares from 4,145,000 to 6,645,000 and through the purchase of the 2,500,000 shares Neperan Resources Company would own 37.6% of the then issued shares. Normally, a private placement of treasury shares of this nature would be made by the directors with the necessary government approvals, but due to the size of this proposed sale, management is asking for your approval at an Extraordinary General Meeting of Shareholders to be held on June 22nd, 1972. Notice of the Meeting, Proxy and an Information Circular are attached for your attention and we request that you read this material to acquaint yourself with further details of the transaction.

Neperan Resources Company is a partnership, organized under the laws of the State of New York, consisting of Louis Marx, Jr., Neil A. McConnell and Montague H. Hackett, Jr. Mr. Marx has been a shareholder in the Company since 1968 and has continually invested drilling funds with the Company. He has also helped the Company raise other drilling funds. Mr. McConnell is the general partner of McConnell, Melhado, a member of the New York Stock Exchange. Mr. Hackett is a senior partner of the law firm of Kirlin, Campbell & Keating and is a member of the Board of Arbitrators of the New York Stock Exchange.

It is anticipated that Mr. McConnell and Mr. Hackett will join the Board of Directors and management is of the opinion that their knowledge and experience in fiscal and corporate matters will be of considerable benefit to the Company.

Company management recommends you approve the proposed sale since it will greatly strengthen the Company financially and allow it to expand its many exploration and development programs.

Yours very truly,

HOUSTON OILS LIMITED

A. E. Whitehead  
President.





# HOUSTON OILS LIMITED

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Shareholders of Houston Oils Limited (the "Company") will be held in the Company Boardroom at 950 Three Calgary Place, 4th Ave. S.W., Calgary, Alberta at 10:00 o'clock in the forenoon (M.D.T.) on June 22nd, 1972 for the purpose of considering and, if thought fit, approving the form of Stock Purchase Agreement entered into as of June 1, 1972 between the Company and Neperan Resources Company, more particularly described in the Information Circular accompanying this Notice.

Shareholders unable to be present at the meeting are requested to date, sign and return the attached form of Proxy to the Secretary of the Company, c/o The Canada Trust Company, 528 - 8th Avenue S.W., Calgary, Alberta, Canada.

Every holder of shares of the Company on the date of the meeting will be entitled to attend and vote thereat either in person or by proxy and such proxy need not be a shareholder. The transfer books of the Company will not be closed.

DATED at Calgary, Alberta, June 7, 1972.

BY ORDER OF THE BOARD

J. A. MILLARD  
Secretary





# HOUSTON OILS LIMITED

## PROXY SOLICITED BY THE MANAGEMENT FOR AN EXTRAORDINARY GENERAL MEETING OF THE SHAREHOLDERS OF HOUSTON OILS LIMITED ON JUNE 22nd, 1972

The undersigned, being a shareholder of shares of Houston Oils Limited, (the "Company") hereby appoints Albert Edward Whitehead, Calgary, Alberta, or failing him, James Arthur Millard, Calgary, Alberta, or failing him, John Arthur Downing, Calgary, or \_\_\_\_\_ of \_\_\_\_\_, as proxy to vote for and on behalf of the undersigned at an Extraordinary General Meeting of Shareholders of the Company to be held at 10:00 o'clock in the forenoon (M.D.T.) on June 22nd, 1972 at the City of Calgary, in the Province of Alberta, and at any adjournments thereof and at every poll which may take place in consequence thereof upon the matters that may come before the meeting, or any adjournments thereof in the same manner as the undersigned could do if personally present thereat, said proxy being hereby instructed to vote at the said meeting as follows:

For ☐ or Against ☐ approval of the Stock Purchase Agreement dated as of June 1, 1972 entered into between the Company and Neperan Resources Company.

In the absence of any specification above, the said appointees shall be deemed to have been granted authority to vote the shares represented by this proxy "for" the approval of the aforesaid Stock Purchase Agreement.

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The undersigned hereby ratifying and confirming and agreeing to ratify and confirm all that such Proxy may do by virtue hereof.

DATED this \_\_\_\_\_ day of June, 1972.

\_\_\_\_\_  
Signature of Shareholder

Please sign exactly as name appears in the box at left. Joint owners should each sign. Executors, administrators and trustees, etc. should attach evidence of their authority and a corporation should affix its seal hereto.

NOTE: Albert Edward Whitehead, James Arthur Millard, and John Arthur Downing are directors of Houston Oils Limited. A shareholder has the right to appoint a person other than those named above to represent him at the meeting, and may exercise this right by inserting the name of such other person in the blank space provided above and deleting the names of Albert Edward Whitehead, James Arthur Millard and John Arthur Downing and initialling same.

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Number of shares held by the shareholder and voted by this Proxy \_\_\_\_\_

Your name and address is recorded as indicated. Please report any change.





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**HOUSTON OILS LIMITED****INFORMATION CIRCULAR****SOLICITATION OF PROXIES**

This information circular is furnished in connection with the solicitation of proxies by the management of Houston Oils Limited (hereinafter sometimes called the "Company") for use at an Extraordinary General Meeting of the shareholders of the Company to be held at Calgary, Alberta, on the 22nd day of June, 1972 commencing at 10:00 o'clock a.m. (M.D.T.), for the purposes set forth in the Notice of Meeting accompanying this Information Circular. Information contained herein is given as of June 7, 1972. The costs incurred in the preparation and mailing of both the proxies and this Information Circular will be borne by the Company.

**APPOINTMENT AND REVOCATION OF PROXIES**

A form of Proxy is attached to the notice of the Extraordinary General Meeting which accompanies this Information Circular. The persons named in such form of Proxy are directors of the Company. Any person or company giving a proxy will have the power to revoke such proxy at any time prior to the meeting. Attendance at the meeting in person by any shareholder will be treated as revocation of any proxy previously given by him.

All properly executed proxies of shareholders received by The Canada Trust Company, Registrar and Transfer Agent for the Company, prior to the time of the meeting on June 22nd, 1972 will be voted at the meeting and, if a choice is specified with respect to any matters to be acted upon, will be voted in accordance with the instructions contained therein.

The person or company submitting the proxy shall have the right to appoint a person to represent him or it at the meeting, other than the person or persons designated in the form of proxy furnished by the company. Such appointment may be exercised by the striking out of the names of persons so designated and inserting name of the appointed representative in the blank space provided, such deletion to be initialled by the person or officer signing the proxy.

**EXERCISE OF DISCRETION BY PROXIES**

A proxy in favour of the persons designated by management of the Company will confer discretionary authority on the persons appointed with respect to (a) amendments or variations to matters identified in the said notice of meeting, or (b) other matters that may properly come before the meeting. Management of the Company is not aware of any such amendments, variations or other matters to be presented for action at the meeting.

**VOTING SHARES AND PRINCIPAL HOLDERS THEREOF**

There are presently issued and outstanding 4,145,000 common shares of the Company. The Company has no preferred shares. The registered holders of shares of the Company, at the time of the meeting, are entitled to attend and vote thereat on the basis of one vote for each such share held. The register of transfers will not be closed. To the best of the knowledge of Management, no person, firm or corporation owns 10% or more of the issued and outstanding shares of the Company.

**AGREEMENT WITH NEPERAN RESOURCES COMPANY**

The Company has entered into a Stock Purchase Agreement dated as of June 1, 1972 with Neperan Resources Company, ("Neperan"), a New York Partnership. The Stock Purchase Agreement will become

effective only upon the fulfillment of certain conditions including approval of the Stock Purchase Agreement by the shareholders of the Company and calls for the appointment to the Board of Directors of the Company of the following two nominees of Neperan (who are also partners in that partnership) as directors to replace two present directors of the Company, Messrs. Charles Franklin Agar and Roger Lauren Ball who have submitted their resignations effective as of the date of approval of the Stock Purchase Agreement:

| <u>Name and Address</u>                                                            | <u>Principal Occupation</u>                                                                          | <u>Shares of the Company<br/>Beneficially Owned as<br/>of June 7, 1972</u> |
|------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| Neil A. McConnell<br>12 Sutton Square<br>New York,<br>New York 10022, U.S.A.       | General partner of<br>McConnell, Melhado,<br>a member firm of the<br>New York Stock Exchange.        | Nil.                                                                       |
| Montague H. Hackett, Jr.<br>550 Park Avenue<br>New York,<br>New York 10021, U.S.A. | Partner of Kirlin,<br>Campbell & Keating,<br>Attorneys-at-law,<br>New York City,<br>New York, U.S.A. | Nil.                                                                       |

The Agreement between the Company and Neperan provides for the purchase by Neperan of Two Million (2,000,000) shares of the common stock of the Company at a purchase price of Two (\$2.00) Dollars per share and an additional Five Hundred Thousand (500,000) shares at a purchase price of Two Dollars Ten Cents (\$2.10) per share.

The closing of the transaction contemplated by the Stock Purchase Agreement is subject to the approval of its terms by shareholders of the Company, such provincial and national regulatory bodies as may be necessary or appropriate in the opinion of Counsel for the Company and for Neperan and stock exchanges on which shares of the Company's stock are traded. The Company has agreed to sell the subject shares to Neperan by way of private placement, exempt from registration under the Securities Acts to which the Company is subject and Neperan has agreed to purchase the shares as an investment and not with a view to resale or distribution. The Stock Purchase Agreement will, however, provide Neperan with certain rights in respect of possible registration after December 31, 1972 of shares purchased.

If the Stock Purchase Agreement becomes effective, control of the Company will be acquired by Neperan which will then be the beneficial holder of approximately 35.9 percent of the issued and outstanding shares of the Company (after giving effect to the exercise of a maximum number of the Company's share purchase warrants, discussed below). Apart from the appointment to its Board of Directors of nominees of Neperan, as above set forth, and the appointment of Mr. Hackett as Executive Vice President of the Company, no further change in the management of the Company is contemplated at this time and Mr. A. E. Whitehead will continue as President of the Company.

As directors of the Company, Mr. McConnell and Mr. Hackett will provide the Company with the benefit of their experience and knowledge in fiscal and corporate matters. The Stock Purchase Agreement will assure the Company of the availability of a substantial amount of cash for exploration and development and will enable it to conduct operations of a magnitude far greater than in the past. The Company will continue to be responsible for the acquisition of additional properties for exploration and development and will plan the exploration and drilling projects for the expenditure of funds generated through the Stock Purchase Agreement.

Neperan is a general partnership organized under the laws of the State of New York. The Partners are Messrs. Neil A. McConnell, Montague H. Hackett, Jr., and Louis Marx, Jr. Mr. Marx has been associated with the Company for several years as a shareholder and presently beneficially owns 144,050 shares of the capital stock of the Company.

The Company will also enter into a Financial Consulting Agreement with Resource Partners, a New York partnership of which Messrs. McConnell and Hackett are partners, under the terms of which an office



will be established for the Company in the city of New York and financial and consulting services will be provided to the Company. The term of the Consulting Agreement is for one year commencing July 1, 1972, subject to renewal rights, and Resource Partners will be paid One Hundred and Fifty Thousand (\$150,000.00) Dollars (U.S.) per year for such services rendered to the Company.

#### **SHAREHOLDERS RIGHTS UNDER WARRANT INDENTURE**

There are presently outstanding 300,000 Share Purchase Warrants of the Company, which are in bearer form and entitle the bearers thereof to purchase shares of the Company's capital stock at a price of \$3.50 per share at any time up to 4:30 p.m. local time at the place of exercise on December 15, 1972.

The Share Purchase Warrants are issued under a Warrant Indenture dated as of November 15, 1969 between the Company and The Canada Trust Company which contains provisions for adjustment in the exercise price in certain events including the issuance of shares of the capital stock of the Company at a price below the exercise price in effect at the time of such issue.

If the Stock Purchase Agreement becomes effective the exercise price in respect of such Share Purchase Warrants shall be reduced to \$2.94 each, in accordance with the formula set forth in the Warrant Indenture.

#### **VOTE REQUIRED FOR APPROVAL**

The Resolution approving the Stock Purchase Agreement with Neperan must be passed by simple majority of the votes cast in person or by proxy at the Extraordinary General Meeting.

#### **OTHER BUSINESS**

Management of the Company has no present knowledge that any business other than that referred to above will be presented at the meeting. However, if any other matters properly come before the meeting it is the intention of the persons named in the Instruments of Proxy to vote such proxies in accordance with their judgment on such matters.

DATED June 7, 1972.

BY ORDER OF THE BOARD OF DIRECTORS

J. A. MILLARD  
Secretary







## HOUSTON OILS LIMITED

## INTERIM REPORT

For the six month period ended  
March 31, 1974

## TO THE SHAREHOLDERS:

Total revenues for the six month period amounted to \$960,164. Net loss for the period was \$27,059. Cash flow was \$212,723. Interest incurred on the \$5,000,000 convertible note and the Texas real estate had the effect of reducing our net income from \$229,266 for the same period last year. Cash reserves and marketable securities at the end of the period amounted to \$4,115,000.

**CENTRAL ALBERTA** — Houston acquired a 25% interest in approximately 41,000 acres of leases on shallow gas prospects. Included in acquisition were three shut-in gas wells. Negotiations are presently underway to contract our gas reserves in this area.

**BUICK CREEK** — The pipe line and compressor station in Northeastern British Columbia has been completed and gas sales commenced on April 24, 1974. The Company's interest in this project is 33 1/3 % which has increased our gas production by approximately 1,000,000 cubic feet per day. Also in British Columbia, Quaser has completed its Grizzly Valley a-85-G, in which Houston has a 3% Gross Overriding Royalty, for a calculated flow of 48 million cubic feet per day.

**NORTHERN U.S.** — The Company's U.S. subsidiary, Bridger Petroleum Corporation, has acquired leases on three large prospects. Two prospects are in Wyoming and contain approximately 145,000 acres. The third prospect is in Nevada and contains some 115,000 acres. Bridger has a 50% interest in each of these prospects.

**BEAVER COUNTY, OKLAHOMA** — Nine wells have been drilled, of which four have been completed as gas wells and five were dry holes. Calculated open flow tests ranged from 2 to 9.3 million cubic feet per day on the four completed wells. We expect to drill

a further 10 - 15 wells in this project during the second half.

**ABU DHABI** — The Arzanah NBR No. 2 which was drilled as a confirmation test three miles south of the Arzanah No. 1 oil discovery offshore Abu Dhabi has reached total depth. Testing was carried out at rates in excess of 7,000 barrels of oil per day. Amerada, as operator of this project, is presently looking for a drilling rig with which to drill another test well on the Arzanah structure. We are unable to forecast when the next test will be drilled due to an acute drilling rig shortage.

**CORPORATE** — DeGolyer and MacNaughton, Consulting Engineers, have just completed an appraisal of the Company's oil and gas reserves and lease holdings. Future net revenue from oil and gas reserves is estimated to be \$45,064,474. Present worth is estimated to be \$21,735,526, using a 9 percent discount factor. The Company's undeveloped acreage holdings were appraised at \$13,720,665.

The proposed Budget which brought down the Liberal Government has sent a shock wave through the oil and gas industry of Canada. If the proposals should become law it will have a devastating effect on our industry. Therefore, management will greatly reduce exploratory expenditures in Canada until after the election. If the new Government should proceed to implement the Budget proposals then we will proceed to concentrate virtually all of our exploration efforts in the United States and foreign areas.

Respectfully Submitted,

A. E. Whitehead  
President



# HOUSTON OILS LIMITED

and subsidiaries

## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

|                                                                  | SIX MONTHS ENDED<br>MARCH 31 |                  |
|------------------------------------------------------------------|------------------------------|------------------|
|                                                                  | 1974                         | 1973*            |
|                                                                  | Unaudited                    |                  |
| <b>PRODUCTION REVENUE</b>                                        |                              |                  |
| Oil and gas production less royalties .....                      | \$ 616,847                   | \$ 398,330       |
| Mineral production .....                                         | 27,123                       | 31,183           |
| Royalty and rental income .....                                  | 25,927                       | 28,015           |
|                                                                  | <u>669,897</u>               | <u>457,528</u>   |
| <b>EXPENSES</b>                                                  |                              |                  |
| Operating .....                                                  | 149,594                      | 120,798          |
| General and administration .....                                 | 310,691                      | 255,673          |
|                                                                  | <u>209,612</u>               | <u>81,057</u>    |
| Operating income .....                                           | 191,247                      | 80,788           |
| Interest income .....                                            | 99,020                       | 272,326          |
| Administration revenue .....                                     | 499,879                      | 416,451          |
|                                                                  | <u>287,156</u>               | <u>416,451</u>   |
| Net cash from operations before depreciation and depletion ..... | 212,723                      | 416,451          |
| Depreciation and depletion .....                                 | 239,782                      | 187,185          |
| Net income (Loss) .....                                          | <u>(27,059)</u>              | <u>229,266</u>   |
| <b>RETAINED EARNINGS</b>                                         |                              |                  |
| Balance at beginning of period (Deficit) .....                   | 209,234                      | (333,006)        |
| Balance at end of period .....                                   | <u>182,175</u>               | <u>(103,740)</u> |

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

|                                                  |                  |                  |
|--------------------------------------------------|------------------|------------------|
| <b>SOURCE OF FUNDS</b>                           |                  |                  |
| From operations .....                            | 212,723          | 416,451          |
| Gas prepayments - net .....                      | 1,236,416        | 51,911           |
| Capital stock .....                              | 136,057          | 916,440          |
| Drilling deposit refund .....                    | 6,056            | 710              |
|                                                  | <u>1,591,252</u> | <u>1,397,152</u> |
| <b>USES OF FUNDS</b>                             |                  |                  |
| Plant property and equipment .....               | 2,871,331        | 1,414,105        |
| Purchase real estate - net of mortgage .....     | 1,904,813        |                  |
| Other .....                                      | 22,300           | 330,604          |
|                                                  | <u>4,676,786</u> | <u>1,744,709</u> |
| Increase (Decrease) in working capital .....     | (3,207,192)      | (346,917)        |
| * Restated giving effect to year-end adjustments |                  |                  |

Approved on behalf of the Board,

Director

Director





## HOUSTON OILS LIMITED

### INTERIM REPORT

for the six month period ended

March 31, 1973

#### TO THE SHAREHOLDERS:

Houston had a net income of \$368,242 or 5.3¢ per share for this reporting period as compared to a loss of \$9,629 or .2¢ per share for the same period last year. Cash flow was \$504,452 or 7.2¢ per share as compared to \$582,288 or 14¢ per share for the same period last year. The number of shares outstanding during this reporting period was 6,959,236 as compared to 4,145,000 last year. Working capital at March 31, 1973 was approximately \$4,500,000.

In January Houston acquired all of the outstanding shares of Transalta Minerals Ltd. The chief asset of this new subsidiary is 36,016 acres of mineral titles it owns covering Petroleum and Natural Gas rights located in the Eastern and Southern portions of Alberta. An additional 3,200 acres of mineral titles were acquired at the same time from individuals who formerly owned Transalta. The mineral titles represent perpetual ownership of the oil and gas rights and at present are generating an annual income of approximately \$30,000.

During this reporting period the Company, through its U.S. subsidiary Bridger Petroleum Corporation, in conjunction with Calgary International, acquired 522,000 acres of oil and gas leases in the west-central portion of Utah. This acreage was acquired on a Devonian Reef prospect which is virtually unexplored. A gravity program is currently underway on this prospect and drilling is planned for late 1973 or early 1974. This prospect must be classified as an extreme wildcat, however, as one of the few remaining areas in the U.S. with the potential of Middle East type reserves, it is a very exciting prospect.

The Company was awarded an 8,000,000 acre petroleum concession by the Imperial Ethiopian Government. This concession is located in Southern Ethiopia adjacent to a large Tenneco concession. Houston has a 25% interest in this project and preliminary exploration work has been commenced.

Respectfully Submitted,  
A. E. WHITEHEAD,  
President

# HOUSTON OILS LIMITED

and subsidiaries

## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

|                                                        | March 31<br>1973 | 1972*      |
|--------------------------------------------------------|------------------|------------|
| <b>PRODUCTION REVENUE</b>                              |                  |            |
| Oil and gas production less royalties .....            | \$ 398,330       | \$ 218,151 |
| Mineral production .....                               | 31,183           | 40,817     |
| Royalty income .....                                   | 10,295           | 1,052      |
| <b>EXPENSES</b>                                        |                  |            |
| Operating .....                                        | 120,798          | 128,571    |
| General and administration .....                       | 232,173          | 103,631    |
| Operating income .....                                 | 86,837           | 27,818     |
| Interest income .....                                  | 80,788           | 2,353      |
| Administration revenue .....                           | 272,326          | 17,039     |
| Net cash from operations before undernoted items ..... | 439,951          | 47,210     |
| Depreciation and Depletion .....                       | 71,709           | 56,839     |
| Net income .....                                       | 368,242          | (9,629)    |
| <b>RETAINED EARNINGS</b>                               |                  |            |
| Balance at beginning of period .....                   | 644,823          | 641,231    |
| Balance at end of period .....                         | 1,013,065        | 634,302    |

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS\*

|                                              |           |         |
|----------------------------------------------|-----------|---------|
| <b>SOURCE OF FUNDS</b>                       |           |         |
| From operations .....                        | 439,951   | 186,895 |
| Drilling bond refund .....                   | 7,310     |         |
| Gas prepayments - net .....                  | 57,191    | 107,955 |
| Capital stock .....                          | 916,840   |         |
| Sale of P & NG leases - net .....            |           | 666,844 |
|                                              | 1,421,292 | 961,694 |
| <b>USES OF FUNDS</b>                         |           |         |
| Loans & advances to subsidiaries .....       | 43,940    | 81,628  |
| Plant property & equipment .....             | 1,393,665 | 379,406 |
| Other .....                                  | 330,604   |         |
| Bank loan payments .....                     |           | 197,000 |
| Development Loan Repayment .....             |           | 51,107  |
|                                              | 1,768,209 | 709,141 |
| Increase (Decrease) in working capital ..... | (346,917) | 252,553 |

\*Restated on the full cost method of accounting